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MULTILATERAL INVESTMENT FUND

**MEXICO**

**BANKABLE PROPERTY RIGHTS  
IN MEXICO**

(TC-02-06-01-1)

**DONORS MEMORANDUM**

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## ANNEXES

### ANNEX I      Logical Framework

For basic socioeconomic data, including public debt information, please refer to the following address:

<http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata>

## ABBREVIATIONS

|           |   |
|-----------|---|
| ABM       | Association of Bankers of Mexico            |
| ANM       | Association of Notaries of Mexico           |
| CESI      | Committee on Environment and Social Impact  |
| CNIDPV    | National Chamber for Housing Development    |
| CODEVISU  | Housing and Land Development Agreement      |
| CONAFOVI  | The National Housing Commission             |
| DGAA      | Office of Management                        |
| DGTV      | Office for Residential Land                 |
| FONHAPO   | National Fund for Popular Housing           |
| GOM       | Government of Mexico                        |
| INFONAVIT | National Fund for Workers' Housing          |
| MIF       | Multilateral Investment Fund                |
| MPPMR     | MIF's Project Performance Monitoring Report |
| PRR       | Property Rights Registries                  |
| SEDESOL   | Ministry of Social Development              |
| SHCP      | Treasury and Public Credit                  |
| SHF       | The Federal Mortgage Corporation            |
| SIGER     | Integrated System of Registry Management    |

## BANKABLE PROPERTY RIGHTS IN MEXICO

(TC-02-06-01-1)

### EXECUTIVE SUMMARY

|  |  |                  |
|--|--|------------------|
| <b>Executing agency:</b>               | The National Housing Commission (CONAFOVI)   |                  |
| <b>Beneficiaries:</b>                  | The direct beneficiaries will be: (a) property owners who will gain the economic benefits of ownership; (b) small businesses that operate out of homes, (c) the housing industry including builders, suppliers and associated crafts through an increase in housing construction; and (d) financial institutions through an increase in their mortgage and commercial lending.   |                  |
| <b>Financial Terms and Conditions:</b> | Modality   | Non-reimbursable |
|  | MIF (Facility I Technical Cooperation)   | US\$2,000,000    |
|  | Local  | US\$2,000,000    |
|  | Total  | US\$4,000,000    |
| <b>Objectives and components:</b>      | The overall objective of the Program is to strengthen the property rights framework in order to increase economic transactions involving real property, particularly credit. The purpose of the program is to improve the quality of property rights in three pilot states and to disseminate the results in order to lay the foundation for nationwide reform. The project has three components: 1) execution of reforms in the property rights registry (PRR) of the participating states by, primarily, reengineering PRR processes, improving management information systems, and strengthening regulatory framework; 2) development of a PRR performance rating system and applying it in the pilot project states; and 3) dissemination of models and the project experience to encourage other states to adopt similar reforms. |                  |
| <b>Execution period:</b>               | The project will be executed during a period of 36 months, with a disbursement period of 42 months.  |                  |
| <b>Special contractual conditions:</b> | The first disbursement of the Project funds for the activities of component 1 will be made upon ratification by the Executing Agency of the agreement with each of the participating states, in the terms agreed with the Bank (see para. 9.1).  |                  |

**Environmental/  
social impact:**

The Environmental and Social Impact Committee (CESI) considered the Project on November 15, 2002. The overall judgement of the CESI is that the project "has no negative environmental and social impacts." In fact, the pilot project will have strong positive impacts. Secure tenure typically: (a) galvanizes families to invest in the improvement of their housing and encourages governments to invest in basic infrastructure; (b) enhances the role of property as the main means for building household wealth; and (c) as recent research documents, frees up family members from staying in the house in order to guard their possession to find employment outside the home. In order to enhance this positive impact, the pilot project will take the following actions as recommended by the CESI: (a) incorporate gender as a variable in measuring the performance of property rights systems and, to the extent possible, in the operation of these systems; and (b) include property rights of women vs. men in workshop and forums throughout the pilot project.

**Exceptions to  
Bank policy:**

None.

## **I. COUNTRY AND PROJECT ELIGIBILITY**

- 1.1 Mexico was declared eligible for all forms of financing from the Multilateral Investment Fund (the MIF) on January 21, 1994. Secure property rights serve as the basis for a market economy in fundamental respects. They give households and small business access to credit and the ability to build wealth, provide savers with a reliable store of value, function as the ballast of the financial system that reduces the credit risk of lending to manageable levels and permits securitization, and underpins housing markets. Hence, secure property rights make possible many private sector activities and contribute to increased economic growth - a fundamental priority of the MIF. As a result, financing for the project will come from the Technical Cooperation Facility of the MIF, which supports improvement to the legal, regulatory, and institutional framework within which the private sector operates.

## **II. BACKGROUND**

- 2.1 In Mexico, the framework for property rights is deficient. Records take long periods to access, and are sometimes unreliable. Costs are high and vested interests within and outside Government take advantage of the system. The fees involved in registering a property transaction can be as much as 6% to 8% of the transaction value, while notary publics sometimes take advantage of their access to the PRR to exact rents from the property rights system. A recent evaluation (2001, CONAFOVI) shows that: (a) 79% of Mexico's states have made little progress in modernizing their property registry; (b) most (25 of 32 states) enter and retrieve information manually either partly or entirely into books with information on property arranged chronologically - an antiquated method prone to corruption, manipulation, and other vices - rather than electronic files dedicated to specific properties<sup>1</sup> (*folios*) - the modern standard; (c) 81% of states lack regulations permitting use of digital or magnetic media for recording property information; and (d) all but two states lack a connection between the property registry and the municipal cadastre - the other important source of land information that modern systems usually integrate with the property registry
- 2.2 The weak regime for property rights hinders economic development in many ways. Of particular importance to Mexico, it impedes the development of financial markets. Despite strong growth in GDP over much of the last decade, credit volume in Mexico has decreased. Such a decline was an expected consequence of the banking crisis of 1995. Lending, however, has continued to fall in more recent years. Banks have repeatedly stated that the lack of security in property transactions represents a key reason for the reduction in credit, particularly credit to small businesses. Small business competitiveness suffers

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<sup>1</sup> Hence, under the book system, notaries must look through various volumes to pick out the information relevant to a specific property - a time consuming and difficult process prone to errors. Paper folios can also be altered or pages removed more easily than electronic systems with access safeguards and back-ups.

- since most small businesses operate out of their homes. Entrepreneurs cannot use their homes and other real assets as collateral to leverage business capital as they do elsewhere.<sup>2</sup> Poorly articulated rules governing property also increase the transaction and financial costs of small business formalization, raising hurdles too high for many small companies to surmount. As a consequence, many entrepreneurs remain in the informal sector, not by choice, but by virtue of a property system that effectively blocks entry into the formal sector.
- 2.3 Housing markets also suffer. Currently, mortgage finance funds only about 40% of new household formation in Mexico. Despite the ambitious goals of Government for expansion, the amount of mortgage credit actually decreased slightly in 2002 over the previous year - a decline attributed by financial institutions to problems with property rights and the quality of loan guarantees. Much of the remaining 60% of the population build homes with their own resources, often on land that they settle informally on which they have rights less than full legal title. This process has generated huge public and private costs. Partly because of the problems surrounding the property rights of existing homes, lenders extend mortgage credit overwhelmingly for the purchase of units in new subdivisions, where property rights are more clearly defined. Relatively little credit is available to finance the purchase of existing homes, to pay for home improvements and expansion, to refinance an existing mortgage, and for other transactions that give economic value to housing (although Mexican mortgage banks have started to make such loans on a small scale). Hence, Mexico largely lacks a “secondary market” for housing. Once they acquire a home, most households live in it until they die and pass it on to the next generation. In the words of Hernando de Soto of the Institute for Liberty and Democracy, most real estate in Mexico is “dead capital”.
- 2.4 The registry of property rights is a state-level affair, with state laws determining the registration and execution of rights to property, and state courts responsible for enforcing these laws. A state government agency – the property rights registry (PRR) – largely maintains property records. State property rights registries are typically outdated and perform poorly - although efficiency varies greatly among Mexico's states. Seven of the 32 states have made some advances. Even in these states, however the process of modernization is far from complete. Thus, considerable work remains to have viable models for well-functioning property registries worthy of emulation at a country level – the essential goal of this pilot project. In contrast, the commercial registry – which is a federal responsibility – has received substantial support, and works through an information system called “SIGER” that, with great adaptation, can also be used for property registration by states uninterested in developing their own in-house system.
- 2.5 In addition to overall level of performance, the systems and procedures, hardware and software, and legal foundations related to property rights differ widely among the 32 Mexican states and the Federal District. Some states have designed their

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<sup>2</sup> In the United States, by contrast, the single most important source of funds for a new business is a mortgage on the entrepreneur's house (De Soto, *The Mystery of Capital*, page 6).



own software, some have purchased it and some utilize a version of the SIGER system, while many states (25) still mainly enter and retrieve data manually in books with entries arranged chronologically. The procedural and relevant regulations differ among states. While it might be useful to have a single set of procedures and information system for property rights using the same regulations, state control of this process and the great variety among Mexico's states makes such standardization impossible. Therefore, CONAFOVI has adopted a policy sanctioned by GOM that states have a choice in the set of procedures and regulations they adopt and that various models are necessary to fit different situations. The project has selected three states that reflect this diversity. In summary, the overall condition of the property rights registries is poor and even the more advanced states require considerable improvement to develop a model system that merits nationwide expansion.

- 2.6 The Mexican government is committed to the improvement of the property registries because of their critical role in expanding credit and revitalizing the financial sector. However, GOM currently lacks viable models for state property registry reform to convince the states. Essentially, the pilot project is to: (a) finish the modernization in a number of states to define viable models; (b) demonstrate the value added of these reforms through measuring increased lending, in particular, and other developmental outcomes; and (c) disseminate these models to other states in order to lay the basis for widespread reform. The Ministry of Finance and Public Credit (SHCP) views this pilot project as a means to creating replicable models that will then be disseminated nationwide to other states.
- 2.7 The Government of Mexico has selected the National Housing Council (CONAFOVI) – the authority in charge of reforms in the housing and land titling and development – as the executing agency for the pilot project. CONAFOVI falls under the Social Development Secretariat (SEDESOL), and has committed the required counterpart funds. SEDESOL's long experience in land and titling and extensive relationships with state governments, and CONAFOVI's mandate to coordinate land and housing policy make CONAFOVI a particularly well-suited execution agency for this project. Participating state governments will contribute additional resources as specified in their agreements with CONAFOVI. Given the importance of this effort for the private sector and for expanding credit, the Association of Bankers of Mexico (ABM) and its member lenders and the SHF have a strong interest in this pilot project, while the National Chamber for Housing Development (CNIDPV) and the Association of Notaries of Mexico (ANM) are also interested. The MIF has received letters of support for the pilot project from ABM and CNIDPV. Hence, the pilot project promises to galvanize a substantial effort involving many elements of Mexican society on PRR reform.
- 2.8 Thus, the project represents an important developmental innovation. IDB has yet to design or fund a program dealing with urban property rights – the main locus of this pilot project - and engage in basic reform of the property registry.<sup>3</sup> IDB

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<sup>3</sup> Similarly, other multi-lateral donors – such as the World Bank and the Asian Development Bank - have little or no experience in urban property rights projects.

programs have dealt mainly with title regularization - which is a subsequent logical step to reform of property rights and property registries - and focussed mainly on rural areas with the objective of giving small farmers security of tenure to their property and of taxing large landholdings.<sup>4</sup> A small number of IDB projects have taken an existing cadastre-registry system, and, essentially enhanced its security and expanded it.<sup>5</sup> In contrast, this pilot project deals with a step prior to either of these: the creation of a functioning property registry/rights system starting with basic principles. Laying this foundation - the goal of this pilot project - is necessary in order to effectively expand nationwide and for massive titling programs. The grant resources provided by this pilot project are essential to lay this foundation so that the Mexican federal government can have effective models for property registry reform to convince the states to subsequently fund such measures via loans and own-source revenue. The pilot project will create a template for urban property rights reform appropriate not only in Mexico, but - with adaptation - to other countries in Latin America and the Caribbean.

- 2.9 MIF promotes competitiveness and catalytic outcomes through innovative projects designed to improve the overall incentives facing businesses, and their capacity to respond to these incentives. A poorly functioning property rights framework discourages markets of many types, raising financial and transaction costs and reducing the flow of credit and working capital. Given the large impact of property rights on the private sector - particularly in an urban setting - MIF resources offer clear additionality vis-à-vis IDB programs.
- 2.10 In parallel with this project, the Government of Mexico has applied to and received a non-reimbursable Technical Cooperation of 147,260 euros from the Spanish Trust Fund. This TC is supporting technical assistance from leading experts from Spain - a country with a well-functioning property registry/rights system that recently emerged from a dysfunctional one similar to that of Mexico's. Essentially, this TC will define the basic principles for property registry/rights reform in Mexico.

### **III. PROJECT OBJECTIVES AND BASIC COMPONENTS**

- 3.1 The overall objective of the Program is to strengthen the property rights framework in order to increase economic transactions involving real property, particularly credit. The purpose of the program is to improve the quality of property rights in three pilot states and to disseminate the results in order to lay the foundation for nationwide reform. The components and activities of the pilot project are described below and a detailed budget is presented.

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<sup>4</sup> The Panama Land Administration and Regularization Programs (PN-0148) is an example.

<sup>5</sup> The Paraguay Programa de Catastro Registral (PR-0132) is an example.

**1. Component 1: Execution of reforms in the participating states (MIF US\$1,646,700; CONAFOVI US\$1,367,800)**

- 3.2 The Mexican Government has identified three states to participate in the pilot project - Colima, Sonora, and Queretaro. These states were selected based on three criteria. First, their PRRs are advanced relative to the dysfunction of those of most of Mexico, but still require substantial work to become models suitable for national dissemination. Second, they have shown interest and commitment in reforming their property rights systems. Finally, they reflect the variety of approaches to PRR reform required for a large diverse country such as Mexico. Colima, for example, has made great advances in e-government, the use of technology to improve the delivery of government services. Colima's property rights registry uses technology effectively to register property transactions and to give notaries and citizens easy access to the information contained in the registry. Queretaro has adapted the SIGER system developed by the Ministry of the Economy for the Commercial Registry to its Property Registry. This state uses a modified SIGER system not only to register commercial transactions (the registration of companies, their by-laws, and shareholder registries, etc.) but also property transactions, thus creating synergies between the two. Sonora was selected because it has unified the operation of its cadastre and property registry into one state institute, and - as it shares a border with the U.S. - has significant potential for attracting substantial foreign investment into residential real estate if the property registry system works well. The ratification of the agreement between each state and CONAFOVI (a condition for first disbursement of Component 1) will formalize the participation of each state.
- 3.3 Even though these three states are relatively advanced, work remains in each of them to complete the process. CONAFOVI has conducted a detailed evaluation of these states to determine the impediments that prevent the efficient functioning of their property rights systems. This evaluation considered: (i) the steps needed to record property sales and mortgage documents in the registry systems; (ii) the management information systems used to record documents and how these systems are linked to the municipal cadastre, (iii) the regulations governing the functioning of registry offices and the definition and exercise of property rights; and, (iv) the transfer of data into the new system. This evaluation has resulted in the identification of the following activities for the pilot project:
- 3.4 **User Outreach.** The Program will design and apply a strategy to reach out to key institutional users of the PRR in the three states in order to secure their cooperation and suggestions. These users include public notaries, financial institutions, small businesses, state and federal housing agencies, and others. The outreach will involve electronic and paper communication and seminars.
- 3.5 **Re-engineering of processes.** The pre-reform property registration process in most Mexican states typically involves over a hundred steps fragmented among various physical locations and many people, and results in poor service to users. Process re-engineering reduces the number of steps, and improves service.

Resources will be provided to hire consultants to analyze the procedural steps involved in registering a transaction in the RPPs. This analysis involves studying the logic of the process flow, the physical location of the responsible staff, and facilities for public access and attention in order to cut times and cost. The consultants will be hired to make recommendations and assist the states in the implementation of these recommendations.

- 3.6 **Management information systems.** Efficient management information systems enable the RPPs to manage and manipulate data on thousands of transactions and enter and retrieve this information quickly and securely. The modern standard is an electronic folio system that integrates information from the property registry and the cadastre. The system should enable the users to easily update information and to view land title information by parcel, by area, or by owner. It should also give users access to related documents and allow receipt of certifications showing property encumbrances (or freedom from encumbrances), and include features to bill the appropriate parties and deliver information over the Internet.
- 3.7 Sonora and Colima have developed their own software for registering property transactions, while Queretaro uses a modified version of the SIGER system of the Commercial Registry for this state's Property Registry. All three states have automated their major property registry offices in the largest municipalities with the objective of integrating information from the property registry and the cadastre in an electronic folio system. However, these states have made hardware and software investments without a coordinated plan over the last decade, staff lack training, and some smaller branch offices remain unautomated. Hence, this component will help invest in: (a) selective replacement and updating of the software and hardware platforms including acquiring software licenses - especially for appropriate databases; and (b) training of staff in these systems.
- 3.8 **Regulatory framework for property rights.** PRR modernization can and is occurring within the current legal framework of the states. Some aspects of the regulations concerning property, however, require modernization in order to facilitate property transactions. The regulations of Sonora and Queretaro, for example, do not take into account electronic folios, electronic signatures, remote access to the PRR, and linkage of the cadastre with the PRR.<sup>6</sup> Hence, although development of and, often, use of such methods in these states is occurring, a modern PRR system would function best with regulatory change that facilitates these mechanisms. Program resources will be utilized to analyze in detail the regulatory changes that facilitate a modern PRR, and to help put in place regulations (through drafts of and promotion of new regulations and laws) that facilitate electronic signature, electronic folios, remote access, and linkage of the cadastre with the PRR in the three states.

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<sup>6</sup> For example, the current regulatory framework dates from an era prior to the Internet. Hence, although some states have begun introducing on-line access for Notary Publics and others, changes in the regulations would facilitate such remote access.

- 3.9 **Capture of historical backlog on demand.** Conversion from paper books and paper folios to an automated system requires inputting and verifying the historical information in electronic form. Colima has completed this process while Sonora and Queretaro have made substantial progress. A backlog of sales, mortgages, and other transactions, however, remain untransferred from the old registration books to the computerized registration systems in the Sonora and Queretaro. Capturing this backlog at once would require a large upfront investment, result in a relatively high degree of error (as it would be contracted to third parties without the incentive or training to be accurate), and - thus - be inefficient. Instead, experience has shown that the records of a particular property are best entered into the new system on demand - that is, when a transaction occurs that involves that property. Mexican PRRs have also found that stimulating demand by social marketing programs that encourage owners to get certificates for their properties effectively speeds this process. Therefore, the pilot project provides support for this function.
- 3.10 **Data Validation.** Prior to the pilot project, the three participating states had entered historical information into their electronic systems by contracting third parties, often without the incentive or expertise necessary for 100% accuracy. As a result, part of the information in the current databases contains error, and must be checked with the original information to confirm its accuracy. The pilot project will invest in this "data validation."
- 3.11 **Link Registry-Cadastre.** The new systems of the states will help link the PRR with the cadastre. However, the cadastre has out-of-date information on the physical and legal characteristics of the property it describes. Hence, the pilot project will finance selective updating of the cadastre, so that this information - too - will be accurate.
- 3.12 **Local Project Management and Supervision.** Each state PRR will cover personnel expenditures to conduct the activities agreed on with CONAFOVI that the pilot project will support.

## **2. Component 2: Development of a PRR rating system and project supervision (MIF US\$77,300)**

- 3.13 As an adjunct to this pilot project, the Spanish Trust Fund is financing the creation of a set of common principles for operation of the PRRs and for a modern property rights system in Mexico. Based upon this consensus on principles, this pilot project will support the creation of a PRR rating system for monitoring performance in property registry/rights reform. Upon presentation of the Spanish Trust Fund report, CONAFOVI will incorporate new and revised indicators in an updated logical framework and the MPPMR, and submit these to the project team for approval. CONAFOVI will apply this rating system and these indicators to the experience of the three participating states.

- 3.14 This PRR rating system will measure the degree to which a state has adopted best practices in the area of property rights, including: (a) the quality of the legal and regulatory framework; (b) the efficiency and equity of the PRR's activities including times and costs; (c) the level of services provided by the PRRs to households, financial institutions, and other users; and (d) degree of integration with other entities dealing with property rights, particularly the cadastre. The pilot project will then support the revision of this system based upon experience in these three states so that it will be ready for application to other Mexican states desiring to modernize property rights. Such a yardstick is essential for creating incentives in the form of access to public and private-sector grants and loans to promote property rights reform - a policy already adopted by CONAFOVI/SEDESOL and the federal housing finance agencies. This PRR rating system could also be adapted for other countries.
- 3.15 CONAFOVI will supervise the execution of the pilot project in each state through: (a) contracting professional services; (b) site visits; and (c) accounting and audits of the pilot project.

**3. Component 3: Dissemination of Models and Pilot Project Experience (MIF US\$46,100; CONAFOVI US\$179,200)**

- 3.16 With the models and standards in place, the Mexican government intends to encourage other states to adopt similar reforms and to effect a substantial, nationwide improvement in housing markets, access to business and other credit, and the full enjoyment of property rights. Activities will include: (a) two "registry workshops" with management from the PRRs of Mexico's other 29 states; (b) publications including a newsletter to disseminate the principles, standards, and indicators for the functioning of modern PRRs; (c) strategic site visits and contracting of experts to provide selective technical assistance to other states engaged in such reforms; (d) site visits of PRR management of Mexico's other 29 states to those of the pilot project; (e) events with other stakeholders including financial institutions, notaries, builders, small business associations and homeowners groups; (f) technical support for the creation of a new national association of PRRs; and (g) development of a PRR web page.

**IV. COST AND FINANCING**

- 4.1 The total cost of the Project is US\$4.0 million. This would be funded by MIF non-reimbursable resources from Facility I (Technical Cooperation Facility) in the amount of US\$2,000,000 and local counterpart resources of US\$2,000,000. At least half of the counterpart resources will be contributed in cash. The major part of the MIF financing will be used to hire specialized consulting services.
- 4.2 Table 1 below shows the budget of the Project prepared by and committed to by CONAFOVI.

| <b>Table V-1</b>  |                  |                  |                  |
|---|------------------|------------------|------------------|
| <b>Budget</b>   |                  |                  |                  |
| <b>Categories</b>   | <b>MIF</b>       | <b>CONAFOVI</b>  | <b>Total</b>     |
| <b>Component 1:</b><br>Execution of reforms in the participating states           | 1,646,700        | 1,367,800        | 3,014,500        |
| <b>Component 2:</b><br>Development of a PRR rating system and project supervision | 77,300           | 0                | 77,300           |
| <b>Component 3:</b><br>Dissemination of models and pilot project experience       | 46,100           | 179,200          | 225,300          |
| <b>Operation/management</b>   | 129,900          | 388,000          | 517,900          |
| <b>Evaluation &amp; audit</b>   | 60,000           | 65,000           | 125,000          |
| <b>Contingency</b>  | 40,000           | 0                | 40,000           |
| <b>Total</b>  | <b>2,000,000</b> | <b>2,000,000</b> | <b>4,000,000</b> |

- 4.3 CONAFOVI's 2003 budget - now approved by SHCP - includes US \$3 million for this project. One million dollars of the \$3 million budgeted for 2003 consists of the required cash counterpart to be contributed to the pilot project by CONAFOVI. The other \$2 million allows CONAFOVI to accept and spend in 2003 the MIF non-reimbursable contribution to this project (a requirement of the federal budgeting process of Mexico). CONAFOVI has assumed responsibility for the other \$1 million in counterpart (which can be in cash or in kind) for 2004. Hence, CONAFOVI has assumed total responsibility for the counterpart for the pilot project - as confirmed by a letter received from this institution in the project files.
- 4.4 SHF S.N.C. will serve as the financial agent of the pilot project with CONAFOVI as the executing agency.<sup>7</sup> GOM has given SHF the lead responsibility for expanding market-rate mortgage finance in Mexico. Hence, this organization has a strong interest in secure property rights. Its participation ensures that the pilot project will have adequate support in the preparation of the terms and conditions required for the hiring of consultants, preparation of reimbursement and fulfillment of contractual conditions.
- 4.5 Because of the urgency of defining the components of each participating state's activities under the Project, CONAFOVI started implementing the project on

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<sup>7</sup> The use of a financial agent is standard in Technical Cooperations and donor programs in Mexico when a Government institution acts as Executor or Beneficiary.

February 1, 2003. Consequently, this organization has requested that the Bank recognize certain counterpart costs that were incurred after February 1, 2003, but before the date of approval of the project, where the Beneficiary has complied with requirements substantially similar to those established in the Agreement of Technical Cooperation. The maximum amount of the counterpart costs to be recognized retroactively is US\$200,000.

- 4.6 All procurement of goods and related services and the hiring of consultancy services will accord with Bank policies, as mandated by the agreement between CONAFOVI and each of the individual states.
- 4.7 The Project is financially and operationally sustainable. From a financial perspective, the RPPs generate more than enough revenue to support their operation. Operationally, CONAFOVI has the organizational capacity and the mandate from Government to disseminate the reforms achieved by the Project nationwide.

## **V. EXECUTING AGENCY AND IMPLEMENTING MECHANISM**

### **A. Executing Agency**

- 5.1 A Presidential decree of July 25, 2001 created the National Housing Commission (CONAFOVI) to coordinate federal Government institutions in the housing sector and oversees housing sector reforms and is also a forum for private-sector stakeholders in this process. CONAFOVI is a semi-autonomous dependency of the Secretariat of Social Development (SEDESOL). Over the past two years, this entity has made major advances in housing and land policy and programs. CONAFOVI works closely with the major housing finance institutions of Mexico, INFONAVIT and the Federal Mortgage Corporation (Sociedad Hipotecaria Federal S.N.C., the “SHF”). CONAFOVI's activities include managing working groups in housing finance, land development and tenure, deregulation and reduction in fees, and institutional strengthening of the housing and land sector. The organization has 82 staff, of which 45 are professionals and the remainder support staff. CONAFOVI has the legal status and resources required by the MIF to act as counterpart.

### **B. Implementation mechanisms**

- 5.2 CONAFOVI will be responsible for executing the project. Both CONAFOVI and the financial agent, SHF (see para. 4.4), will be in charge of the accounting of this MIF and counterpart resources used in the project.<sup>8</sup> CONAFOVI's project team has prepared a draft action plan for the execution of the project taking into account the project's Logical Framework. CONAFOVI will also monitor the

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<sup>8</sup> CONAFOVI will supervise and control the pilot project through DGTv (the Dirección General de Fomento Territorial para la Vivienda). The DGAA (Dirección General Adjunta de Administración) will supervise the administrative, accounting, and budget of the pilot project



execution of the Project, and coordinate with the three states, with other agencies and with the private sector to implement the Project activities.

- 5.3 The CONAFOVI personnel that will execute the project include: (a) the director general in charge of land; (b) the director in charge of land; (c) a director general for legal affairs; (d) two technical staff - a deputy director for general services and a deputy director for infrastructure; and (e) two administrative support staff.
- 5.4 CONAFOVI will directly execute components two and three of this pilot project that is, the development of the PRR rating system and supervision of progress in each of the states, and the dissemination of models and pilot project experience. Each participating state government will be the co-executor of Component 1 of the project – that is, the implementation of project activities at the state level based on a formal agreement between each state and CONAFOVI (see the paragraph directly below). In this capacity, each state government will contract the technical assistance, services, and equipment agreed-on with CONAFOVI for the execution of the project in that particular state. CONAFOVI will monitor this contracting and execution. The competence of the state governments involved joined with the national procurement rules that they must obey makes state contracting of these items the most straightforward, secure, and quickest means of executing the project at the state level. Mexico's federal system and advances in decentralization over the last decade make state government co-execution of these activities the best alternative.
- 5.5 On behalf of other federal government entities involved in housing (INFONAVIT, SHF, FONHAPO) as well as for its own housing programs, CONAFOVI/SEDESOL have prepared a framework agreement for housing and land for state governments, called CODEVISU. This agreement assigns rights and responsibilities to each signature party, and conditions assistance from the federal housing entities to state governments on adequate performance in a number of key areas - in particular, on property rights and PRR reform. As part of this project, SEDESOL/CONAFOVI will subscribe an annex to this agreement (the CODEVISU) that details the activities, auditing/accounting, CONAFOVI's contribution, the commitment of counterpart state resources, reporting requirements, procurement requirements that comply with IDB procedures, and other characteristics of the pilot project for each of the three participating states. The Legal Department of the Bank has reviewed both the framework agreement (the CODEVISU) and the annex. The subscription of the annex is a condition for first disbursement of Component 1 (i.e. the state-level activities) of this pilot project.

#### **C. Execution Period, Accounting and Auditing, and Performance Indicators**

- 5.6 **Execution Period.** The Project will be executed during a period of 36 months from the signing of the agreement with the MIF and disbursed within a period of 42 months. Following the presentation of an action plan for the Project's activities, and the acceptance of the plan by the Bank's Representation Office, the

MIF will advance 10% of the amount of the donation to establish a revolving fund.

- 5.7 **Accounting and Audit.** CONAFOVI will be responsible for the following: a) establishing and maintaining adequate accounting and financial records that identify the sources and use of the Project's funds; (b) opening separate and specific bank accounts for managing the MIF contribution and the local counterpart funds; c) processing disbursement requests; and (d) submitting to the Bank the Project's audited financial statements. Within 90 days following the final disbursement, CONAFOVI will submit to the Bank the financial statements of the Project certified by an independent auditing firm acceptable to the Bank. The audit will be carried out under the Bank's external audit requirements (Documents AF-100 and AF-300) based on terms of reference approved by the Bank.
- 5.8 **Performance indicators.** Improvements in the quality of property rights can make a substantial impact in a variety of areas. The value of housing assets is naturally higher when the right to that asset is clear. A secondary market for housing develops, because people are willing to buy a house if they are confident about what they are getting. This leads to greater labor participation.<sup>9</sup> The quality of housing assets improve, because people are more willing to invest in home improvements. Tax collections often increase, because the number of transactions and their value increases. And the quality of urban planning improves, since the records in the registry office about who lives where enables planners to know where to run gas lines and how to route traffic.
- 5.9 While improvements in all of these areas may occur, the more systemic ones - such as improvements in the quality of urban planning, and increase in credit - take time and may not be observable during the period of execution of this project. Hence, in addition to the final evaluation that will occur at the end of the Project, CONAFOVI will assess these more systemic changes two years after the the project finishes. The project will establish a baseline and monitor progress by using the following indicators (in each of the three states): the average time to register a property sale and a mortgage transaction; the ability of property owners or other users to make inquiries regarding a particular property; the number of public notaries operating on-line with the reformed systems; the increase of housing transactions in the three estates, and the increase of mortgage credit. With regards to a nationwide reform, the project will keep track of the number of additional states that request federal support to reform their registries as a result of the pilot experience.
- 5.10 CONAFOVI has prepared the Project, its budget, and the logical framework during the last six months in anticipation of the availability of MIF funding, and

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<sup>9</sup> A recent study of massive titling programs in Peru found that one of the main economic impacts was to free up household members - who, prior to receiving title, had had to occupy the property continuously to guard their claim - to find jobs outside the home in the labor force.

has a highly competent team of professionals in place to manage the Project. The governments of the three participating states have actively participated in this design and the analysis of their RPP, which has resulted in the activities and budget for each state. The Project is therefore in an advanced state of readiness.

## **VI. MONITORING AND EVALUATION**

- 6.1 The execution of the Project will be supervised by the Representation Office in accordance with the Logical Framework contained in Annex I. To facilitate this supervision, the executing agency will prepare a report every six months setting out the activities undertaken during the period, along with an indication whether the activity was completed or is still being executed. Additionally, the report will provide an indication of difficulties encountered during the period and actions taken to solve them. The report will also set out the activities to be undertaken during the next six months. The progress report will be delivered to the Representation Office within 30 days following the end of the corresponding semester. The Representation Office will use these reports to monitor the Project and to prepare a final report on the results of the Project no later than three months after the final disbursement.
- 6.2 In addition to the six-monthly reports described above, the executing agency will provide the Representation Office with copies of all reports and documents prepared by the consultants retained for the execution of the Project. These items will enable the Office to follow the Project during the six-monthly periods and will also serve to support disbursement requests.
- 6.3 The Bank will hire individual consultants to conduct a mid-term evaluation of the Project once 50% of MIF funds have been disbursed and a final evaluation three months after the end of the Project and prior to the final disbursement. These evaluations will focus on the changes directly attributable to Project implementation such as the reduction in time and costs of RPP processes. The evaluations will cover: (a) the degree of completion of the scheduled activities and attainment of the supervisory indicators set forth in the Logical Framework; and (b) performance of the Executing Agency. The more systemic objectives of the Project such as an increase in credit (in effect, those changes measured by the indicators in the first row of the Log Framework) are likely to take more time. Hence, CONAFOVI will examine the Project's results two years after completion in order to assess the Project's systemic impact.

## **VII. PROJECT JUSTIFICATION AND RISKS**

### **A. Projects Benefit and Development Impact**

- 7.1 The project is expected to have a substantial impact on private-sector activity by improving property rights in the pilot-project states. The economic impacts will

occur mainly through expanding access to credit for business and home lending (as measured by lending volumes in participating states). Other benefits include: (a) a reduction in the complexity and processing times for the registration of property and businesses; (b) greater transparency and public access to information contained in the property and commercial registries; (c) improved reliability of the information in the registries; (d) an increase in the proportion of properties registered and, thus, the completeness of the registry; and (e) better connection to the cadastre and, hence, greater potential for property tax revenues.

- 7.2 The project is additional with respect to Bank operations and falls under the MIF core area, as identified by the Working Group Report, “Improving Market Functioning.”. There are no existing models that can be applied to the improvement of property rights in Mexico. Hence, the Mexican Government highly values this project as a means to galvanize reform. IDB program also has yet to design a program that puts in place the foundation for urban property rights reform as this MIF project does. Hence, the pilot project will grant resources for urban property rights reform – now missing – that can be disseminated widely in Mexico and – with appropriate modifications - to other countries.

## **B. Beneficiaries**

- 7.3 The direct beneficiaries will be: (a) property owners who will gain the economic benefits of ownership; (b) small businesses that operate out of homes, (c) the housing industry and the builders, suppliers and crafts associated with it through an increase in housing construction; and (d) financial institutions through an increase in their mortgage and commercial lending.

## **C. Risks**

- 7.4 Technical Complexity. Mexico has yet to establish a framework for strengthening property rights reform, which is a technically complex endeavor. Great variety exists among its 32 states in both the operation of the property registry and the direction of reform. The pilot project team within CONAFOVI is highly competent, however, and the resources available to this team from the MIF and other sources should be sufficient to meet this challenge.
- 7.5 Firm commitment of state government to reform. Charges for registry services are high in Mexico and these service revenues are an important source of income for the states. However, strong interests within and outside property registries benefit from their inefficiency, high cost, and lack of transparency. Thus, state government must be firmly committed to achieving the much greater benefits of reform (greater lending, higher property values and more household wealth, more liquid real estate and better access to financial markets etc.) and overcoming the obstacles to reach them. In order to ensure this commitment, only states that have embraced the reform process and who are willing to commit counterpart resources have been selected to participate in the pilot project.

- 7.6 Strong on-going incentives to maintain the system. Registration of all property in a state in a well-functioning system would, by itself, still fall short of ensuring the success of the reform. The reform should also include measures to ensure the maintenance of and participation in the system. To ensure this, a set of rewards and penalties will be designed to encourage involvement in the system. In this regard, the CODEVISU agreements between the federal housing entities and the states put such incentives in place. SHCP is monitoring this project closely and has also expressed a willingness to help create such incentives.

**D. Environmental and social aspects**

- 7.7 The Environmental and Social Impact Committee (CESI) considered the Project on November 15, 2002. The overall judgement of the CESI is that the project "has no negative environmental and social impacts." In fact, the pilot project will have strong positive impacts. Secure tenure typically: (a) galvanizes families to invest in the improvement of their housing and encourages governments to invest in basic infrastructure; (b) enhances the role of property as the main means for building household wealth; and (c) as recent research documents, frees up family members from staying in the house in order to guard their possession to find employment outside the home. In order to enhance this positive impact, the pilot project will take the following actions as recommended by the CESI: (a) incorporate gender as a variable in measuring the performance of property rights systems and, to the extent possible, in the operation of these systems; and (b) include property rights of women vs. men in workshop and forums throughout the pilot project.

**VIII. EXCEPTION TO POLICIES AND PROCEDURES**

- 8.1 There are no exceptions to the Bank's policies.

**IX. SPECIAL CONTRACTUAL CONDITIONS**

- 9.1 **Agreement between CONAFOVI and each of the participating states.** The presentation of an agreement executed between CONAFOVI and the respective state is a condition prior to disbursement of component 1 of the pilot project.

**BANKABLE PROPERTY RIGHTS IN MEXICO  
LOGICAL FRAMEWORK**

| OBJECTIVE  | INDICATORS   | MEANS OF VERIFICATION  | ASSUMPTIONS  |
|--|--|--|--|
| <b>Goal:</b><br>Improve the quality of property rights in the pilot project states and disseminate the results to lay the foundation for nationwide reform. The reform will help improve access to credit for housing and strengthen the secondary market by increasing economic transactions involving real property. | 1. 20% increase in housing credit portfolio<br><br>2. 20% increase in housing sales  | 1. Comparing the financial statements of preselected banks upon project initiation and project completion<br><br>2. Comparing PRR records upon project initiation and project completion | 1. There is political and economic stability at the national level.<br><br>2. The state governments demonstrate the political will to support the project for PRR modernization and participate in it.     |
| <b>Purpose:</b><br>Support the program for modernization of property records through: (a) development of viable models for intervention; (b) implementation of the models developed in three state governments; and (c) dissemination of the results to prepare for nationwide reform.                                 | 1. PRR transaction registration time reduced by 30%<br>2. PRR property consultation time reduced by 30%<br>3. Three notaries in each pilot state have online connection to reformed PRR<br>4. Five additional states request federal support to reform their PRR | 1. Comparing PRR records upon project initiation and one year after completion   |  |
| <b>Outputs:</b><br>1. Reform of PRR in pilot state governments completed.  | 1. Electronic folio system established<br>2. Regulatory framework modernized<br>3. Software packages and hardware installed and operational<br>4. PRR and cadastre systems integrated<br>5. Core PRR staff trained and in place                                  | 1. Project completion report   | 1. Qualified staff actively participate in PRR reform in the pilot project states.<br><br>2. State associations of notaries and other organizations involved in property registration support the program. |

| OBJECTIVE  | INDICATORS  | MEANS OF VERIFICATION                               | ASSUMPTIONS  |
|--|---|---|--|
| <p>2. PRR rating systems developed and implemented.</p> <p>3. Models and pilot projects disseminated</p>   | <p>1. PRR rating systems developed and implemented to: (a) strengthen the regulatory framework; (b) improve system efficiency; (c) improve service to users; and (d) integrate the systems with other property rights systems.</p> <p>1. Visits by PRR officials from most of the 29 state governments to the PRR in the pilot project states</p> <p>2. Two “registry” workshops held with the participation of PRR officials from 15 state governments interested in undertaking reforms</p> <p>3. Group of technical experts from the pilot project states makes at least 5 visits to support interested states</p> <p>4. Materials for dissemination of standards and rating systems, and pilot projects published and distributed</p> |   |  |
| <p><b>Activities:</b></p> <p><b>1. Execution of reforms in the pilot project states</b></p> <p>a. Outreach plan</p> <p>b. Reengineering of PRR processes</p> <p>c. Management information systems</p> <p>d. Regulatory framework</p> <p>e. Capture of backlog</p> <p>f. Data validation</p> <p>g. PRR-cadastre link</p> <p>h. Local project management</p> | <p>Budget executed: US\$ 98,600</p> <p>Budget executed: US\$ 296,000</p> <p>Budget executed: US\$1,445,900</p> <p>Budget executed: US\$ 127,500</p> <p>Budget executed: US\$ 30,200</p> <p>Budget executed: US\$ 144,700</p> <p>Budget executed: US\$ 559,200</p> <p>Budget executed: US\$ 326,900</p>  | <p>1. Quarterly progress reports on the program</p> | <p>1. Highly trained consultants are available during the project execution period to provide specialized technical support.</p> |

| OBJECTIVE  | INDICATORS  | MEANS OF VERIFICATION                       | ASSUMPTIONS |
|--|---|---|-------------|
| <b>2. Development of PRR rating systems and supervision</b><br>a. Rating systems developed<br>b. Supervision (CONAFOVI)  | Budget executed: US\$ 82,300<br>Budget executed: US\$592,200  | 1. Quarterly progress report on the program |             |
| <b>3. Dissemination of models and pilot project experience</b><br>a. Workshops<br>b. Consulting services<br>c. Stakeholder events and technical support<br>d. Publications<br>e. Website development | Budget executed: US\$64,300<br>Budget executed: US\$18,900<br>Budget executed: US\$48,900<br>Budget executed: US\$47,600<br>Budget executed: US\$47,200 | 1. Quarterly progress report on the program |             |